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THE ADMINISTRATION'S
FY '95 BUDGET REQUESTS FOR THE
ECONOMIC DEVELOPMENT ADMINISTRATION AND
THE APPALACHIAN REGIONAL COMMISSION

Y 4. B 22/1:103-116

The Administration's FY'95 Budget R...

HEARING

BEFORE THE

SUBCOMMITTEE ON

ECONOMIC GROWTH AND CREDIT FORMATION

OF THE

COMMITTEE ON BANKING, FINANCE AND

URBAN AFFAIRS

HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

SECOND SESSION

FEBRUARY 10, 1994

Printed for the use of the Committee on Banking, Finance and Urban Affairs

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CONTENTS

	Page
Hearing held on:	
February 10, 1994	1
Appendix:	
February 10, 1994	21

WITNESSES

THURSDAY, FEBRUARY 10, 1994

Hawkins, Hon. Wilbur F., Acting Assistant Secretary for Economic Development, U.S. Department of Commerce	4
Moravitz, Francis E., Executive Director, Appalachian Regional Commission ..	7

APPENDIX

Prepared statements:	
Kanjorski, Hon. Paul E.	21
Hawkins, Hon. Wilbur F.	23

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

Appalachian Regional Commission, Summary of 1995 Budget	29
Moravitz, Francis E., Distressed Counties map	32

(III)

THE ADMINISTRATION'S FY '95 BUDGET REQUESTS FOR THE ECONOMIC DEVELOPMENT ADMINISTRATION AND THE APPALACHIAN REGIONAL COMMISSION

THURSDAY, FEBRUARY 10, 1994

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON ECONOMIC GROWTH
AND CREDIT FORMATION,
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS,
Washington, DC.

The subcommittee met, pursuant to notice, at 3 p.m., in room 2222, Rayburn House Office Building, Hon. Paul E. Kanjorski [chairman of the subcommittee] presiding.

Present: Chairman Kanjorski and Representative Fingerhut.

Chairman KANJORSKI. The subcommittee will come to order. I have to apologize. As you know, we had three votes, back to back. We had intended to start at 2 o'clock, and the bells went off and we have been holding everybody up, so you have our apologies.

This afternoon the subcommittee meets to receive testimony from the Economic Development Administration and the Appalachian Regional Commission on the President's fiscal year 1995 budget request for these two agencies.

President Clinton has committed this administration to fostering economic revitalization and new job creation throughout the Nation. The Economic Development Administration and the Appalachian Regional Commission have in the past played key roles in working toward this important goal. It is clear from the budget proposal that President Clinton shares my belief that the Economic Development Administration and the Appalachian Regional Commission continue to have important roles to play in the overall economic development strategy of this Nation.

This type of support from the White House was not the case during the 1980's. Both the EDA and the ARC faced neglect, and in some cases hostility, under Presidents Reagan and Bush. In fact, during that time the Congress was repeatedly urged to totally abolish the Economic Development Administration. Fortunately, Congress did not abolish these agencies. Instead, through annual appropriations the Economic Development Administration and the Appalachian Regional Commission were kept alive. Nevertheless, at least in the case of the EDA, that agency's authorities and its funding were drastically reduced and its ability to meet pressing national and community needs was drastically undercut.

Under President Clinton, however, we again have an administration which understands the importance of fostering economic growth in hard-hit areas and which understands the significant contributions EDA and ARC programs can and should play in this effort.

Just as important, this administration is working actively to try and improve the way the Economic Development Administration actually works. For example, during the last year, considerable effort has gone into revising and expediting EDA's application process. This is absolutely critical and long overdue.

Lengthy and challenging application forms and the unacceptably long time EDA took in its review and decision process combined to create enormous frustration in the communities EDA was intended to serve. Some have suggested that this was a deliberate policy by past administrations seeking to make the case that the EDA was ineffective and should be eliminated. I applaud Commerce Secretary Brown and Acting Assistant Secretary Hawkins for immediately beginning to work to reverse this situation. I know that many members of this subcommittee will be closely watching EDA's progress in this area.

It is particularly noteworthy that President Clinton's fiscal year 1995 budget proposal contains an important new tool for EDA to help promote economic development; \$50 million is requested to provide loan guarantees. It is estimated that this will leverage a total of \$269 million to help create new jobs in distressed communities.

Revitalizing EDA's loan guarantee authority, combined with other administration proposals to facilitate the participation of private nonprofit and community-based organizations in EDA's programs, underscores this administration's commitment to forging new public-private partnerships that can make a difference.

In the coming weeks, this subcommittee is planning to hold hearings on the President's requests for the Economic Development Administration and the Appalachian Regional Commission as the subcommittee prepares to mark up reauthorization legislation. In this process, we will be examining a number of extremely important policy questions ranging from: "What is needed to ensure that EDA provides timely and effective assistance to communities hard hit by natural disasters, base closures, defense downsizing, and other significant losses to the area's employment base?" to "How do we best assist communities which have suffered long-term economic distress?"

I just wanted to add a personal note. When I first was elected to the Congress, one of my first experiences was with the Administrator of the Economic Development Administration, who has since moved on to other political ventures, and I believe now is residing in Hawaii. He directly indicated to me in one of our meetings that it was his mission to destroy and put to its final resting place the Economic Development Administration.

As a person who has spent a lot of time in public affairs and government in my lifetime, I never could understand anyone taking charge of an agency or a mission whose sole purpose was to destroy or misdirect that mission; and unfortunately, under past administrations that was exactly the effect.

Today, I am so pleased to have Mr. Hawkins. We have spent a great deal of time together. I know you know what your mission is and you want to perform it, and that is great. I just threw that history in for my fellow colleague who is here, because these are actually much better times than in the past, Eric. You will be glad to learn that.

I will call on Mr. Fingerhut for his opening remarks.

Mr. FINGERHUT. Thank you, Mr. Chairman. I, obviously, don't share the history you have, either in this body or with the Economic Development Administration. Let me just thank you for calling these hearings and thank the gentlemen for appearing.

We have, obviously, a very difficult task ahead of us as we begin to debate the 1995 budget requests. On one hand, nobody would question the mission of either of the organizations that you represent, but everyone in these tough budget times has to question every expenditure of dollars and ask whether these are the best ways of achieving the goals in these times.

I know that the administration's request with respect to each of your departments reflects this, reflects their desire to move away from some traditional programs and into other new programming areas. In general, that is an instinct that I applaud.

The question is, in this case, are these changes in direction, changes in priorities, the appropriate ones. The only question here is, what do we do best to promote jobs and economic development in the regions of our country that are in particular need of that development?

I am particularly concerned, obviously, about the subject of trade assistance, trade adjustment assistance, which I know the administration has proposed some very dramatic changes in and is hoping to, through another department of government, the Department of Labor, and other committees of this Congress, hoping to completely revamp the reemployment system. Coming from an area, as both the chairman and I do, that have seen some considerable dislocations as a result of trade competition, particularly the manufacturing sector, I think that this subcommittee is going to want to take a very close look at what the administration proposes before we would agree that we ought to be taking funds away from firms that are struggling to compete in the marketplace.

The particular goal, I think that again the chairman and I share, is an emphasis on building, rebuilding, and maintaining our manufacturing base. If there is anything that this subcommittee has stood for over the last year, it is that if we want to thrive in the future, we have got to be building our manufacturing sector; those are the jobs that create wealth, those are the jobs whose spinoff is great throughout the economy, and those are the jobs that, quite frankly, this country hasn't worked to save and foster over the years, so that is what I—those are some of the criteria that I think we will be applying as we listen to the testimony.

And again I thank you all for the work you have done over the past year. Thank you for being here.

Mr. Chairman.

Chairman KANJORSKI. Thank you very much, Mr. Fingerhut.

We have two participants on our panel today, and we welcome the Honorable Wilbur Hawkins, Acting Assistant Secretary for Eco-

conomic Development, U.S. Department of Commerce; and Mr. Francis Moravitz, Executive Director of the Appalachian Regional Commission.

Welcome, gentlemen. We look forward to both your testimonies. We will call on Mr. Hawkins first.

STATEMENT OF HON. WILBUR F. HAWKINS, ACTING ASSISTANT SECRETARY FOR ECONOMIC DEVELOPMENT, U.S. DEPARTMENT OF COMMERCE

Mr. HAWKINS. Thank you, Chairman Kanjorski and Congressman Fingerhut. We are pleased to have the opportunity to appear before you this afternoon and we recognize that the Economic Growth and Credit Formation Subcommittee is, in fact, a vital part of our survival within the Economic Development Administration, and, quite frankly, many of the issues that we face are also issues of interest to you. Hopefully, our comments today will be in part targeted toward responding to those concerns; and likewise, we would hope that we will be able to give you an overview of what the administration's budget proposal for fiscal year 1995 is, and then subsequently address any issues that you may have associated with our reauthorization request.

As part of the hearing record we have submitted our official comments, and I will refer to some of the highlights from that statement in my comments today.

The role of the EDA has been outlined in the administration's fiscal year 1995 budget request and reauthorization request, and they represent a commitment on the part of the administration and on the part of the Department of Commerce to revitalize and retool EDA to meet not only traditional economic challenges but also to focus upon expanding authorities that will provide the agency with an opportunity to further assist our Nation's distressed communities.

EDA provides grants for public works and development facilities, planning and coordination, and other financial assistance that will help reduce substantial and persistent unemployment in economically distressed areas. EDA Programs have and will continue to provide our economically distressed areas with opportunities to move into the 21st century through a full range of grants and research, evaluation, and demonstration activities, defense conversion, and disaster funds.

The administration's fiscal year 1995 budget request includes an increase in the budget authority of \$50 million for economic development guaranteed loans, as you alluded to earlier, Mr. Chairman. In addition, the budget request includes termination of the Trade Adjustment Assistance Program—as you indicated, Mr. Fingerhut—which provides technical assistance to firms injured by imports. Our goal is to ensure American companies are a part of the growing export market and that the jobs created by exports are available in distressed areas.

We intend to provide a holistic approach to economic development by providing planning assistance, technical assistance, and assistance to financial intermediaries and other nonprofits to facilitate business development and expansion. Loan guarantees will leverage limited Federal dollars through a Federal guarantee with

local, State, and nonprofit organizations that have other reserves which can be used to facilitate business activity and development in these targeted areas.

We will not use these guarantees to assist businesses directly, but instead will work with governmental and not-for-profit entities to provide assistance to lead to long-term job creation.

In defense conversion, we will use funds to provide an array of services to base closing communities and communities already adversely impacted by downsizing of defense-related industries. We will provide public works assistance, business formation assistance, and support industry conversion efforts.

Our goal here is to have the private sector business activity replace the military dominance of these defense-impacted areas. The goal is lofty and the task is daunting, but we believe we will have some success.

The administration is prepared to increase the overall EDA budget when many agencies are receiving decreases, because EDA is a part of the overall investment strategy that translates the priorities of the administration into tangible activities for residents of distressed communities. EDA has the role of translating our new emphasis on civilian technology and translating this into tangible jobs for Americans living in distressed communities.

EDA historically has had a role in softening the transition of communities impacted by change in administration policy. Trade adjustment assistance, specifically, was an outgrowth of another administration's desire to transition workers and communities ruined by shifts in trade policies. Today, defense conversion is part of the administration's response to those communities and individuals impacted by the end of the cold war and the subsequent reduced need for military installations and industries.

EDA also is the agency called upon to help in the recovery phase after a natural or social disaster. That is, after the Federal Emergency Management Agency [FEMA] and after emergency housing and food stamp assistance has come to bear, EDA steps in to help distressed areas rebuild and to revive their economies. We are doing this in the flood areas, and we are beginning to do it in the earthquake-ravaged areas in and around Los Angeles.

To accomplish these goals, EDA is translating the trade and technology policies to benefit distressed areas. We are softening the impact of defense conversion and are taking the principal lead in long-term recovery from natural disasters.

EDA needs significant resources and a variety of tools to meet expectations and to ensure long-term job growth and development in distressed areas. The current budget proposed by the administration provides substantial funds and a rebirth of dormant tools that will enable EDA to begin meeting the challenges we face.

Specifically, the administration budget includes \$32.647 million in salaries and expenses. This amount represents an increase from the fiscal year 1994 budget amount for the purpose of streamlining grants, administration, increased budget and program evaluation efforts, and to upgrade our information management systems, and for our Office of Economic Conversion Information [OECI] as it relates to our national defense clearinghouse.

Concurrently, EDA will reduce the number of permanent positions by 17 from 1994; \$187.024 million in broad-based multibased multipurpose economic assistance is proposed. This is a decrease of \$55.6 million from the fiscal year 1994 budget, to conform to the President's 1994 request.

We also have an additional \$140 million for defense economic adjustment which represents a \$60 million increase from 1994. This is to provide investments in long-term recovery efforts for defense-impacted communities.

There is an additional \$51.9 million for the Economic Development Guaranteed Loan Program, an expanded role in which EDA requests increased budget authority.

In fiscal year 1995, EDA proposes to leverage private financing as a source of economic development funding by targeting the Guaranteed Loan Program toward those firms whose financing needs exceed the Small Business Administration limitation on dollar value and which are located in urban areas and, therefore, are excluded from the Farmers Home Administration Program.

Particular emphasis will be put on assisting firms impacted by defense adjustment, natural disaster, and government actions such as the North American Free Trade Agreement and the General Agreement on Tariffs and Trade, or GATT. The amount will cover the estimated subsidy rate for an estimated \$269 million program, Mr. Chairman, as you alluded to earlier.

With this program, EDA will broaden its economic development network by working toward a stronger partnership with the business community, which has the capacity to produce jobs in distressed communities.

Closely aligned with the EDA fiscal year 1995 budget request is reauthorization of the EDA. Prior to the Clinton administration, the agency was the target of elimination. As a result, the Public Works and Economic Development Act [PWEDA] of 1965, has not been significantly amended since 1981. In addition, the grant application system has become a cumbersome, time-consuming process for our customers.

The legislative proposal transmitted to Congress on February 2, 1994, includes a number of technical changes and an administration request to reauthorize EDA only through fiscal year 1995, which will provide the administration an opportunity to work more closely with the Congress during this year to revitalize and retool EDA as an economic engine for the future.

Specifically, our legislative package proposes to, first, provide for a consolidated and coordinated set of program authorities under a limited number of titles that would allow for simplified and strengthened delivery of EDA Programs to the Nation's economically distressed or deteriorating communities.

Second, we propose to increase the emphasis on programs which support local and State development and implementation of economic development strategies.

Third, we recognize that economically distressed areas require special attention and programs of sustained and targeted aid to allow private-sector investment and jobs.

Fourth, we propose to unify the framework for economic development assistance that is based on a government-wide strategic plan.

The result, a more customer oriented focus by EDA by eliminating cumbersome requirements and the facilitation of the award of grants, particularly to those communities being affected by defense cutbacks and the updating of PWEDA by eliminating redundant requirements already covered by Executive orders or other laws, is our focus.

We propose to improve program management by providing more flexibility and creativity to deal with the changes that may occur in the post-award period. We also propose to eliminate outdated and unneeded structures such as advisory committees and study boards. We propose to reduce timeframes for processing and approving grants and loans and to ensure EDA has the authority to institute a Guaranteed Loan Program that complies with the Federal Credit Reform Act of 1990.

Mr. Chairman, the suggested changes will make the economic development programs of the Department of Commerce more effective and will allow the Department to respond more quickly to the economic development needs of the Nation.

In closing, EDA, as you very well know, is fostering a partnership—new partnerships and strategic alliances with Federal, State, and private entities, as evidenced in the administration's budget for 1995 and our reauthorization request. EDA has demonstrated its expertise in addressing the economic needs of distressed communities, as well as the total community impact of natural and social disaster. EDA's experience and expertise is extensive, growing, and expanding. This administration is committed to making EDA one of the most reliable Federal entities.

We look forward to working with the Congress as we approach a new horizon in economic development. Again, thank you, Mr. Chairman, for the opportunity to appear today, and I will answer any questions that you may have.

Chairman KANJORSKI. Thank you very much, Mr. Hawkins.

[The prepared statement of Mr. Hawkins can be found in the appendix.]

Chairman KANJORSKI. Mr. Moravitz.

STATEMENT OF FRANCIS E. MORAVITZ, EXECUTIVE DIRECTOR, APPALACHIAN REGIONAL COMMISSION

Mr. MORAVITZ. Thank you, Mr. Chairman, for the opportunity to represent the Appalachian Regional Commission. Let me say it is a pleasure to be with Wilbur, whom I have known for a number of years.

We at the Commission are very dependent on an agency such as EDA for the operation of our own program. We are also mindful, Mr. Chairman, of the history that you recounted because those of us who have been with the Commission a long time well know the role that you, the subcommittee, and other Members of Congress have played in keeping alive the mission of the Commission.

I would like to make a note that last June when I appeared before you, I was representing Jackie Phillips, the Federal Co-Chairman of the Commission, who was appointed to that position by President Bush. Mrs. Phillips is still in that—serving in that capacity. However, Dr. Jess White of Chapel Hill, North Carolina, has

been nominated, has been reported out by the committee to replace Mrs. Phillips at some point.

So needless to say, we have had a long transition, and staff has found itself in a position of cutting and filling in places, so I hope that you will bear with me.

The mission of the Commission pretty much remains the same. The good news is that last year and this year, the budget for the Commission, as presented by the President, was substantially increased. More importantly—and I am speaking now on behalf of the Governors—there is a better balance between the highway side of our expenditures and the nonhighway side.

The people who are involved at the local level, our development districts, the nonprofits, the industrial development boards, are much more interested in projects for the industrial parks, for the revolving loan funds, for the health projects, education, manpower training programs, than highways per se. They look at highways as programs that have alternative means to find financing, and therefore welcome the change that was brought about in the 1994 program.

In 1994—I informed you last June that the budget request of the President was for \$189 million. And there we saw that first shift. Traditionally, the funding for the Commission has been two-thirds for highways, one-third for everything else, including administration. In 1994, the request was for \$100 million for highways, \$89 million for the other program, so a much better balance.

Now, as it turned out, the actual appropriation for the Commission was \$249 million, or \$60 million over the President's request. This year, the request is for \$187 million, which is a 25 percent reduction from the appropriation level, but a number that tracks with the budget agreement concerning ourselves last spring. One hundred eighty-seven, of course, only represents a \$2 million reduction from the President's proposal.

The division of money for this year is \$100 million again for highways, \$78,100,000, for nonhighway activities, \$5.3 million for our Local Development Districts and Technical Assistance Programs, and \$3.6 million for administration.

Further information on the budget in the area of the development side of our program, we have two divisions that I would like to call to your attention. We expect to spend \$45,189,000 in basic community development projects; that will include your sewer and water, industrial development, industrial parks, that type of thing, mostly infrastructure.

In business and human development, \$32,216,000. What we find is that our infrastructure projects tend to be more expensive, so we are only looking at about 180 projects altogether, in that area. On the business and community development side, a workload of about 320 projects, again with revolving loan funds receiving about \$4 million of that money.

And I would just note, Mr. Chairman, to pass on, on our industrial revolving loan funds, we have supported 25 to date. Our grants, initial capitalization grants for \$13.6 million, those funds have revolved about 2½ times with the payoff, and the leverage is \$255 million. And that involves a great deal of leverage with the private sector where banks are meeting with the local development

districts to form loan committees and to participate in the loans that are made by those organizations.

In most cases, we are participating with EDA in jointly funded revolving loan funds. We are anticipating in the current year, where we have allocated our funds to the States in the highway category and in the nonhighway category, to see a very vigorous year—almost, I should say, reinvigorating year—with the additional funds that have been provided. It now makes it useful for people to think in terms of strategic planning, long-range planning, when they can see some end or some promise to programs.

The Commission has jumped in with the Department of Agriculture and HUD on the Enterprise Zone and Empowerment Zone Programs. We have detailed staff to the Department of Agriculture to help in the development of guidelines to share our knowledge of project development, strategic planning, provided maps and counseling not only to the people in our region, but sharing it with other people throughout the country.

In the area of authorizations, Mr. Chairman, the Public Works Committee, as I am sure you know, is considering legislation that pretty much mirrors the appropriation level that we had for the current year and recommends additional funding for 1995–1996. The administration's position, as we understand it, is that the recommendation is for a 1-year extension for both EDA and ourselves, with the authorization numbers to be adjusted to the recommended budget levels.

And I would like to close, Mr. Chairman, on a personal note. I have been in this business 34 years, have made a lot of friends and have a lot of colleagues throughout our region, including a number of people in your own district. And I just want to thank you, the members of your subcommittee, for the many courtesies; and I hope that I have been responsive as I approach my retirement March 3.

Chairman KANJORSKI. So you are not going to have to pay the price for the budget cuts. Very good. Thank you very much, Mr. Moravitz.

You have to leave early, Eric, and I will defer to you if you have some questions.

Mr. FINGERHUT. I thank you, Mr. Chairman.

I do apologize; I have a 3:30 o'clock meeting in our office, and of course, thinking we were starting at 2 o'clock, I thought I would have plenty of time to question you.

Let me just ask the one question that I am sure you know is on my mind, Mr. Hawkins, and that is the question of the Trade Adjustment Program. You did reference it in your testimony, but we do have both individuals who receive income maintenance type benefits as a result of having been dislocated through foreign competition, through the trade agreements our government has entered into, and we also have firms that receive support for trying to re-tool, and so forth, to meet the terms of the trade agreements.

Can you just tell me briefly so I can understand, which pieces of these programs are proposed to be eliminated, which pieces are proposed to be refunded, reauthorized?

Mr. HAWKINS. Specifically, the entire Trade Adjustment Center Program will be eliminated or is proposed to be eliminated under the budget, so neither component will exist. But let me preface that

by stating that the Secretary is committed to expanding the level of opportunity that American firms have for exporting. And if you will note, he has in fact made several trips to the Far East, one to leverage contract opportunities for American aerospace firms to make aircraft for Saudi Arabia.

Firms affected under the Trade Adjustment Program will be eligible for other types of assistance throughout EDA's program lines. Likewise we have a responsibility to assist industries. And as we begin to look at industries that need to be retooled, there is that delicate balance; and of course, if you look at our budget, there is some strengthening from a fiscal point in our budget request for fiscal year 1995. And as you will have already noted, the Trade Adjustment Assistance Program is the only program that we have proposed to eliminate.

So as we looked at what could be absorbed, we had to focus on our limited resources on areas of greatest need.

When you look at the University Centers Program, which is also a vital part of that tandem of Trade Adjustment Centers and University Centers and the assistance that is offered, the University Centers Program is still left intact.

So that may seem like a protracted response to your question, but somewhere along the line we had to focus. And when you begin to look at the fact that individual firms are nestled in our Trade Adjustment Assistance Program and they received one-on-one counseling, we contend that they are business incubators, our revolving loan funds—we operate 408 revolving loan funds—and that there are some other technical assistance providers that could possibly fill that narrow segment while we focus on an industrywide approach.

Mr. FINGERHUT. I would just comment very briefly that I understand the need to prioritize, and I don't think anyone here will play the not-in-my-backyard game with you, because we all understand that these are government-wide issues, but if there are other programs that exist currently that are being funded that could pick up the slack for the things that are proposed to be eliminated, then it seems to me critical that we build something into this transition to make clear where we should be directing the companies and industries that are working in those existing programs.

My concern is that there is not such a logical leap, that when someone calls my office I can say, well, this program is ending, but here is the program that can pick you up.

If you are saying there is, and I certainly respect your knowledge of this area, then we need to lay that out in very great detail and specificity, so we can be proactive in getting out to the firms that are working with these centers and say, OK, it is not going to be here, but it is going to be in this alternative place.

And I would request, Mr. Chairman, if I could with your permission, that we ask Mr. Hawkins maybe to address that in more detail in a letter to the subcommittee, or further response to the question.

Mr. HAWKINS. We will respond.

Mr. FINGERHUT. Thanks.

Thank you, Mr. Chairman.

Chairman KANJORSKI. Thank you very much, Mr. Fingerhut.

We have had occasion, of course, Mr. Hawkins, to do some preliminary briefing. But just to spell out things, the rationale behind the 1-year reauthorization request is to get some handle on what the Department of Commerce will be doing in reorganizing and re-framing the mission of the EDA over the next few years. Is that correct?

Mr. HAWKINS. That is correct, and Mr. Chairman, you are aware that, like ARC, we are awaiting the arrival of our senior officer. And as you also are aware, I have been basically wearing two hats, that is the Acting Assistant Secretary and Deputy Assistant Secretary.

And, quite frankly, what we hope to accomplish through the 1-year reauthorization request is basically to look at EDA across the board—and, believe me, I have a litany of questions and issues that must be not only prioritized, but addressed, and once our Assistant Secretary is on board, we intend to look at, in greater detail, the administration's policy perspective and the programs that are planned, consistent with what the history of EDA has been.

As you are very well aware, after having 12 or 13 years of sequestering, so to speak, of the organization, we have in fact been able to come from the depths of obscurity relatively fast. And I often comment that I hope that our staff hasn't suffered from the bends in coming up so fast. But in some measure, I think we have.

When you begin to look at our application reform—when we first came on board, we heard EDA does a traditionally good job of its programs, but it takes so long to process an application. We began our application reform process; and there are some things, some additional concessions, that might be needed, but we cannot officially request those at this point. And what we hope is that we would be able to accomplish what we can through a 1-year reauthorization, and then those issues that could be accomplished administratively would be accomplished.

And then we look toward a broader EDA or expansion of EDA and a redefinition of our role in subsequent legislation.

Chairman KANJORSKI. Very good. We look forward to working with you on that, Mr. Hawkins. You mentioned in your testimony that you will be using some of the Loan Guarantee Programs, potentially, for the purchasing of new manufacturing equipment. Is that for existing industries?

Mr. HAWKINS. No, I didn't say specifically new manufacturing equipment, but manufacturing technology.

Chairman KANJORSKI. Right. Does that include equipment or is that just new technologies?

Mr. HAWKINS. Well, we would not narrow it to say equipment, because quite frankly, Mr. Chairman, when you begin to look at a guarantee program and the one that we have proposed, we will work specifically through intermediaries. And each of the guarantees will be specifically tailored to an applicant and the package that they can offer.

When you look across the board at one of the broad departmental thrusts, it is to bring manufacturing technology into the workplace in a creative way. What we have to do from a EDA perspective is to make sure that we have a litany of resources that can be flexible enough to meet the needs, whether it is for equipment or if, in fact,

it is for an expansion of a business opportunity for export or other demands as seen in the marketplace.

But we contend that, in large measure, demand will be driven by technology and by the applicant and by industry, not by EDA.

Chairman KANJORSKI. So you are going to have a situation where you have great, broad flexibility in evaluating the long-term prospects for the success of each applicant.

Mr. HAWKINS. That is correct. If you would indulge me for a moment, EDA uses nine criteria to evaluate how we would arrive at the \$269 million guarantee authority. If you would just allow me to run through those, I would.

The first criterion is that loan guarantees will be fully disbursed within the year of commitment.

The average life of loans guaranteed will be 15 years.

No loans will default in the year of approval or the first year thereafter.

Of the loans that do default or result in loss, half the losses will take place over 3½ years, and thus, those loans guaranteed in fiscal year 1995 will not result in losses until fiscal year 1997 or 1998.

Of the total loans approved, 20 percent will fail, but the actual loss to the government will be 75 percent of the outstanding balance at the time of failure.

Six, through liquidation, EDA will recover 25 percent of the value of the guarantee at the time of failure.

Liquidation will be resolved and the government will collect the aforementioned 25 percent in the second year.

We will charge a 1 percent application fee, and for the purposes of presentation, the loan guarantee repayments are based on a 15-year straight-line methodology.

The discount rate used to compute the net present value of the loan guarantee loss is 5.93 percent.

These are assumptions, Mr. Chairman, that are going into structuring our program. And as I may have indicated to you earlier, we anticipate having our program ready to go at the beginning of the next fiscal year, October 1.

Likewise, when you begin to look at the Credit Reform Act of 1990, these are some of the requirements that are in accordance with that particular act. Certain prohibitions exist that keep EDA from actually setting the rate of interest, and so forth.

So all of those are blended in, but primarily you have our nine technical assumptions, and I am willing to provide those to you at a subsequent date.

Chairman KANJORSKI. We appreciate that.

Mr. Moravitz, with respect to the Appalachian Regional Commission, have all the States designated some formula for the distribution of these funds, or is that a flexible question between the Governors as they meet periodically?

Mr. MORAVITZ. When the Governors meet, Mr. Chairman, to allocate money, they must meet with a quorum present; and voting to allocate, they divide money among themselves by State. That is in the highway area. That is fairly straightforward; it is relative cost to complete. In the nonhighway area, there are two allocations.

There is one for most-distressed counties. Of our 399 counties, we have identified 115 that are severely distressed.

We use poverty rates, long-term unemployment rates, and income. As you might guess, there is close correlation between the old, traditional, coal mining areas. We take 20 percent of the money off the top; they allocate, which means several of the States, about four of the States, stand aside while that piece of money is allocated; and then the other piece is done on straight formula, taking into account population, some of the standard——

Chairman KANJORSKI. What happens, as in the past in Pennsylvania when states don't draw down their yearly allocation? Do they get to draw on that the next year?

Mr. MORAVITZ. We make the allocation, and they draw that year.

Chairman KANJORSKI. What happens if they don't draw it?

Mr. MORAVITZ. They lose the money. We have a use-it-or-lose-it policy.

Chairman KANJORSKI. Have we had any failures by any of the States?

Mr. MORAVITZ. In the past year, no, but in Pennsylvania, like 7 or 8 years ago, in the highway area, did sacrifice a considerable amount of money until they were able to get their gas tax in to provide the necessary matching.

But let me just—one further thing to get to your project question, the Governor then submits to us a list of projects. And we have Governor Casey's list of priority projects in all of our categories. We are waiting for him to give our priorities.

The Governors meeting collectively will approve that total package and the funding process will start. In fact, the funding process is under way. Our applicants are working with EDA, Farmers Home Administration, and with our own staff developing the individual projects.

Chairman KANJORSKI. Do you usually, you piggyback on another agency?

Mr. MORAVITZ. Piggyback another agency, yes, sir.

Chairman KANJORSKI. And, what, about the half of the amount that EDA contributes?

Mr. MORAVITZ. It has come down. The maximum that we can fund is up to 80 percent. Our participation is running about 27 percent.

Chairman KANJORSKI. Of the project?

Mr. MORAVITZ. Of the total project cost.

Chairman KANJORSKI. And what is the portion of the other agencies, like Farmers Home Administration or EDA?

Mr. MORAVITZ. About twice that, with the locality, local, and States putting in the other matching pieces.

Chairman KANJORSKI. Very good.

Mr. Hawkins knows what I am thinking about. Where, over the long term, do you see EDA's role, Mr. Hawkins, in the area of technology transfer? I don't want to pin you down on anything, but do you see that EDA may be called upon to become more active in that area?

I notice in the President's budget a great deal more allocation for technology expenditure and for science, research, and development.

Is that going to be something that EDA will have a direct pipeline to?

Mr. HAWKINS. Well, I think, Mr. Chairman, you can see from not only the President's budget but the Secretary's commitment to the revitalization of EDA and where Commerce is going vis-a-vis technology, that Commerce definitely will assume a lead role in technology commercialization.

If you ask me to look into my crystal ball and answer your question based upon my professional perspective and as an administration appointee, I would have to say that, quite frankly, our role within the Economic Development Administration is yet to be defined.

I think that there are some questions that exist relative to EDA's speed of response that must be addressed in order to be in position, as well as to be in condition to handle the additional responsibility. So I think that that is one area that I do know we have to retool internally.

When you begin to ask about our response time on our applications, when you have a private sector applicant or a business that has an opportunity to come into a distressed area, there is a limit on the amount of time that that business can wait on dollars to be made available.

Likewise, when you talk about the expansion of existing industry within a community, particularly small businesses, there is a limit on how much loan capacity they can absorb. And many small businesses in distressed communities cannot stand additional debt. What they need is to have some type of near-equity or equity financing that would allow them to spread their debt over a longer period of time.

So when you ask me to look into the crystal ball and say where EDA will be with respect to technology, I think that we would like to be a major player. We are rapidly retooling our agency to become a major player.

Likewise, when you begin to talk about the definition of "infrastructure" and what EDA has within its arsenal of resources, infrastructure and our traditional definition of infrastructure perhaps will need to be redefined to include some of the telecommunications infrastructure, such as satellite or uplink, downlink capacities, fiber-optics and the like, that are not presently clearly defined in our definition of public works; that is, roads, sewers, bridges.

So when you ask, where are we going, I think we are headed in the right direction. The question is, how fast is EDA responding and retooling itself to be in a position to be a major player? And given the fact that we have regular programs in disaster and defense conversion, I think that we are being looked upon by the Secretary—as a matter of fact, I know the Secretary is looking upon EDA to be responsive and find ways and means of fitting in in a very meaningful way.

Chairman KANJORSKI. Mr. Hawkins, you currently have a Loan Guarantee Program. Now, are you familiar with the situation where the Congress required the Federal Home Loan Bank Board to make money available for housing, industrial, and economic development through the window?

Mr. HAWKINS. Vaguely, yes, sir.

Chairman KANJORSKI. OK. Are you coordinating with that type of an entity, or are you operating alone in your mission?

What my question really refers to is that, although the window is making money available at about 3.5 percent, the loan then moves through a banking operation which adds on an additional cost of about 2 percent for servicing the loan.

However, since we may have government loan guarantees here, it may be advisable to have a vehicle through EDA that you can go straight to the window at 3.5 percent and make that money available at that rate; and you will truly be short-circuiting the banking institutions. For some high risk businesses, that 2 percent differential may be a great encouragement or contribute to their chances of success.

What I am thinking of, is whether it might be advisable for this subcommittee to hold a roundtable discussion, putting in the same room the Agriculture Department and their Rural Development Program, HUD's Economic Development Program, Commerce's Economic Development Program, the Federal Home Loan Bank—even the Appalachian Regional Commission—and see whether or not we are all in sync with each other, whether they are using each other in the best method of leverage, and whether their programs should be brought together in some kind of more coordinated multiple agency agreement?

Mr. HAWKINS. Well, I think, quite frankly, that makes a lot of sense. And just earlier this morning I was appearing on a panel with other Federal agencies with respect to the ETIs. And, basically, the economic tax incentives were being discussed and what interagency collaboration is taking place.

So to answer your question, what we have proposed in our Loan Guarantee Program is, in fact, a gap-financing approach, not to cover what SBA covers, but to cover what they don't cover; not to cover what RDA covers, but to actually fit into that missing threshold.

So when you begin to talk about creative approaches to packages that are necessary, I think that there are two fundamental issues. One is an issue of information. There is a broad base of information that exists in the universe of the finance community and within Federal institutions that is not being made available to local economic development entities, nor to private sector at the local levels.

Likewise, there are alternative forms, such as pension funds, when you begin to look at operating reserves that perhaps utilities have—we have not explored in great depth the role of utilities in economic development like we can.

So when you begin to talk about bringing Farmers Home Administration, HUD, or SBA to the table, it is very important that from—and I come from a community economic development perspective—that when you are packaging a deal, that you know what all of your resources are from A to Z, what they can do, and where the gaps are and how you creatively massage those determinations, how fast you are actually going to get your client or your project developed. And I think that a forum brought together and convened would necessarily bring all of the parties to a level of discussion so you can actually sort out where our similarities and our differences are.

Within EDA, as we approach structuring our newly defined guarantee authority, we are drawing upon past experience of EDA, which, when we operated our previous guarantee funds, surprisingly enough, was a very good program, yet at the same time it was prior to the Credit Reform Act of 1990.

And, again, there have been new players that have emerged on the horizon. So it is necessary for us, as a natural part of our operation, to go back and look at what other agencies are doing and what is taking place in the private sector.

But from a congressional perspective, I think any forum of that nature would be tremendously beneficial to all parties involved in that scenario.

Chairman KANJORSKI. Very good. We will look at undertaking that if we can. In some of my discussions with the Secretary of Agriculture and other individuals, everybody is playing a part here, but there is a little bit of a separation that still exists. Maybe we can unify this in some way and make it simpler, a deal that would not necessarily fly at 5.5 percent, might go if we could provide a government guarantee through EDA at 3.5 percent. We should look at the possibilities of accomplishing that.

Mr. HAWKINS. Well, if I could just inject another point here that I didn't mention in my earlier comment, Mr. Chairman, when you look at the empowerment zones and the enterprise communities and the application process that each community or applicant will actually undergo, they are being asked to not only do a different level of strategic planning, but also to be creative in their approaches to submitting their applications.

Simultaneously, each Federal agency is being asked to look across our resources and see what we could avail to those empowerment zones and enterprise communities once selected. Each applicant is, as a preliminary, being asked to supply a notice of intent to apply. So what we will be able to do from an EDA perspective is to actually go down the list of each of those notices of intent to apply, see what we already have available in that area, whether it is in our EDA pipeline or whether it is something that is planned.

Likewise, we will be able to assess what economic development tools are in place at EDA, such as one of our revolving loan funds or some other program.

Then when the application comes through, there are two scenarios: One, there are the empowerment zones, the six urban and three rural; and then we have a host of empowerment communities. What we will then be doing is looking at each of those applicants and what they have proposed, to see where some of the gaps are that not only exist in their plans, but also in our service delivery system.

The forum that you alluded to, in bringing the private, the business sector together in a creative fashion or in an explanation fashion, could definitely fit into that scenario.

And then, finally, as we look forward to the discussion on development banking, we will all be challenged to take a retrospective look at what we have done and a futuristic look at the approaches of development banking and the legislation that will be presented to see how we can also fit in.

So the whole industry of community economic development is evolving, and I think that we are at a very good time to have focused on healthy dialogs to sort out duplication, gaps that may exist, and to make sure that we accelerate the process and the speed at which distressed communities are able to retool.

Chairman KANJORSKI. Very good. You know that we gave a lot of latitude to the Secretary of HUD to negotiate with pension funds and to come up with a much larger program. The results are going to be very positive for everyone. By bringing in the pension funds, the government is relieved from the total financing package.

That is what I really have in mind. We need to figure out the best way government can leverage the enormous resources that already exist in the private sector.

I guess I will throw a zinger at you, Mr. Moravitz. Did you have a timetable as to when the Appalachian Regional Commission will complete its existence or plan?

Mr. MORAVITZ. Mr. Chairman, let me project myself to March 4. And I would advise that I would take a very hard look at the highway system. The program that has been put forward by Secretary Pena for the National Highway System includes most of the mileage on our current system, either built or unbuilt.

I think that all but 307 of the 3,025 miles are on that preliminary system, and I suspect before Congress finishes its review and final approval, that additional miles will be on that system. So it would seem to me the first cut would be to look at that program and see if there are optional ways of handling the financing and the administration.

On the other part of the program, I will always be a very strong advocate for special funding for the very distressed, severely distressed communities of this region. The region is unique, as you know, particularly in those coal mining areas, where half of the economic base has been lost in the last 10 years.

You thought you were making great progress; and 70,000 of those 140,000 coal mining jobs disappeared, and they are gone. And that is one of those applications of technology that works, you know, as a cutting edge. I do think that, Dr.——

Mr. HAWKINS. White.

Mr. MORAVITZ. White, excuse me; my friend, Dr. White, feels that he wants to take a very hard look at your question and see whether or not there are applications of what we do and how we do it, particularly the part where we mesh with other agencies, in other parts of the country.

What turned Dr. White on is this little map that I will hold up. The red is bad. And you see the distribution of the counties throughout the Nation that experience severe distress. And the concentration is, of course, the coal mining areas of Appalachia, then going down into the Delta that Wilbur is familiar with, and then going along the Texas-Mexican border, and then a scattering of the Indian reservations as you move to the West.

I think that map shows 606 out of the 3,100 counties of the Nation. It would seem, I think, that a close look ought to be paid to that map where special attention is needed.

When the Empowerment Zone Program and the Empowerment Communities Program has worked its way in its first round, Wil-

bur and I both know there are going to be more disappointments than happy people, because there are only three empowerment zones for rural areas. So probably eight or nine of those counties are going to have the benefit of the empowerment zones. And there are only 30 in the rural communities throughout the Nation that will have. So there is a big gap here.

There is—of those that are not going to be participating in some of the mainline program thrusts, that would seem to need some attention.

Chairman KANJORSKI. What are the criteria that are used to define what these distressed counties are?

Mr. MORAVITZ. We use—our basic criterion is that you are 50 percent above the national average on unemployment 3 years running, you are 50 percent above the Nation in terms of poverty rates as defined in the 1990 census, and that on per capita market income, you are less than two-thirds the national average. So we are talking about real distress.

Now, there is obviously another level, you start cutting say 35 percent or 25 percent, and that number increases. This would be the extreme distress.

Chairman KANJORSKI. I notice that Arizona is on this map.

Mr. MORAVITZ. That would happen, I think, probably because those areas are Indian Reservations.

Chairman KANJORSKI. OK. Because when I was out in Arizona a couple of weeks ago, it didn't look distressed to me. I wish my district was as distressed.

Mr. MORAVITZ. Those would be my two recommendations, sir, and stand as my recommendations.

Chairman KANJORSKI. I am impressed with the support provided by both the Economic Development Administration and Appalachian Regional Commission in the development of industrial parks and the type of infrastructure that they required. But what about local entities in distressed areas that don't have a private developer who can turn a dollar by the sale of the industrial land. Your agency and Mr. Hawkins' are probably the only two Federal resources they can look to.

Mr. MORAVITZ. Some CDBG prepared program?

Chairman KANJORSKI. Yes, but because those programs are primarily geared to municipalities, old areas that don't have consolidated municipalities end up not qualifying; they don't have the land.

My area has that problem. There are 75 municipalities in 1 county. None of them seems to qualify for anything because of that. We might be better off if we move a little more of the funds toward the economic development area and the job creation area, as opposed to providing funds just for building infrastructure.

Mr. MORAVITZ. Yes, and that clearly is the direction of the President's budget. It is clearly the direction that Jackie Phillips—I am sure I can speak for her in that direction—and I know it is the position of the Governors.

Chairman KANJORSKI. Where does Ms. Phillips come from?

Mr. MORAVITZ. Maryland; she is from Maryland.

Chairman KANJORSKI. Maryland, very good. Let's see, how many counties does Maryland—

Mr. MORAVITZ. Three. There are three counties.

By the way, that is correct, one of the interesting sidelights you ask about the question of allocations. Pennsylvania, with 52 counties and, I think, about 30 percent of the population of our region, participating with Maryland with only 3 counties and about 150,000 people; and you have to balance the extremes.

So it makes it worthwhile for Maryland to stay in the program, without unduly penalizing Pennsylvania, making it worthwhile for Pennsylvania to stay in also. It is one of the appreciations you develop for people like yourself who know politics.

Chairman KANJORSKI. Local balance.

Mr. MORAVITZ. Right.

Chairman KANJORSKI. Well, everything else comes down to that, doesn't it?

Well, I appreciate both of your testimonies today. You know, with the good leadership now in place both your agencies finally have a green light to show their creativeness and accomplish what we all want to do in this administration.

So I congratulate you, Mr. Hawkins. You have come through our year together well.

We are going to miss you, Mr. Moravitz. Are you going to Florida on your retirement?

Mr. MORAVITZ. No, no, sir; no, sir. I am going to be dividing my time. I will be doing a lot of volunteer work in the housing area in the central part of our region, where I started some of the initial efforts.

Chairman KANJORSKI. Very good. Well, stay in contact with us, and let us know if we can be of assistance to you once you retire, particularly in the consulting area, where you can help out with some ideas or thoughts.

Mr. MORAVITZ. I will be bugging Wilbur.

Mr. HAWKINS. We will be working together.

Chairman KANJORSKI. On behalf of the full committee, I thank you for coming. Because of the time and circumstances, other members could not be here. If we have additional questions, we will submit them within the next 2 weeks, and ask that you supply the answers for the record. Thank you.

Other than that, we thank you very much for your attendance and the subcommittee will stand adjourned.

[Whereupon, at 4:07 p.m., the hearing was adjourned.]

APPENDIX

February 10, 1994

OPENING STATEMENT OF THE HONORABLE PAUL E. KANJORSKI

CHAIRMAN, SUBCOMMITTEE ON ECONOMIC GROWTH AND CREDIT FORMATION

FEBRUARY 10, 1994

HEARING ON THE ADMINISTRATION'S FY '95 BUDGET REQUESTS FOR
THE ECONOMIC DEVELOPMENT ADMINISTRATION AND
THE APPALACHIAN REGIONAL COMMISSION

This afternoon the Subcommittee meets to receive testimony from the Economic Development Administration and the Appalachian Regional Commission on the President's Fiscal Year 1995 budget requests for these two agencies.

President Clinton has committed this Administration to fostering economic revitalization and new job creation throughout the Nation. The Economic Development Administration (EDA) and the Appalachian Regional Commission (ARC) have, in the past, played key roles in working toward this important goal. It is clear from the budget proposal, that President Clinton shares my belief that the EDA and the ARC continue to have important parts to play in our overall economic development strategy.

This type of support from the White House was not the case during the 1980's. Both the EDA and the ARC faced neglect, and in some cases hostility, under Presidents Reagan and Bush. In fact, during that time the Congress was repeatedly urged to totally abolish the Economic Development Administration. Fortunately, Congress did not abolish these agencies. Instead, through annual appropriations, the EDA and the ARC were kept alive. Nevertheless, at least in the case of the EDA, that agency's authorities and its funding were drastically reduced and its ability to meet pressing national and community needs was drastically undercut.

Under President Clinton, however, we again have an Administration which understands the importance of fostering economic growth in hard-hit areas and which understands the significant contributions EDA and ARC programs can, and should, play in this effort.

Just as important, this Administration is working actively to try and improve the way the Economic Development Administration actually works. For example, during the last year considerable effort has gone into revising and expediting EDA's application process. This is absolutely critical and long overdue.

Lengthy and challenging application forms, and the unacceptably long time EDA took in its review and decision process, combined to create enormous frustration in the communities EDA was intended to serve. Some have suggested that this was a deliberately policy by past Administrations seeking to make the case that EDA was ineffective and should be eliminated. I applaud Commerce Secretary Brown and Acting Assistant Secretary Hawkins for immediately beginning to work to reverse this situation. I know that many Members of this Committee will be closely watching EDA's progress in this area.

It is particularly noteworthy that President Clinton's FY '95 budget proposal contains an important new tool for EDA to help promote economic development. \$50 million is requested to provide loan guarantees. It is estimated that this will leverage a total of \$269 million to help create new jobs in distressed communities.

Revitalizing EDA's loan guarantee authority, combined with other Administration proposals to facilitate the participation of private non-profit and community-based organizations in EDA's programs, underscores this Administration's commitment to forging new public-private partnerships that can make a difference.

In the coming weeks, this Subcommittee is planning to hold several hearings on the President's budget requests for the Economic Development Administration and the Appalachian Regional Commission as the Subcommittee prepares to mark-up re-authorization legislation. In this process we will be examining a number of extremely important policy questions ranging from:

"What is needed to ensure that EDA provides timely and effective assistance to communities hard-hit by natural disasters, base closures, defense downsizing, and other significant losses to an area's employment base?" to

"How do we best assist communities which have suffered long-term economic distress?"

Today's hearing begins this process and I look forward to our witnesses' testimony.

U. S. DEPARTMENT OF COMMERCE
ECONOMIC DEVELOPMENT ADMINISTRATION
TESTIMONY OF ACTING ASSISTANT SECRETARY
FOR ECONOMIC DEVELOPMENT

WILBUR F. HAWKINS

HOUSE BANKING, FINANCE AND URBAN AFFAIRS
SUBCOMMITTEE ON ECONOMIC GROWTH AND
CREDIT FORMATION

U. S. HOUSE OF REPRESENTATIVES
THURSDAY, FEBRUARY 10, 1994
2 P.M.
2222 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, D. C.

CHAIRMAN KANJORSKI, CONGRESSMAN RIDGE, AND OTHER DISTINGUISHED MEMBERS THANK YOU FOR THE OPPORTUNITY TO APPEAR BEFORE THE SUBCOMMITTEE ON ECONOMIC GROWTH AND CREDIT FORMATION TODAY TO PROVIDE INFORMATION ON THE ADMINISTRATION'S FISCAL YEAR (FY) 1995 BUDGET AND RE-AUTHORIZATION REQUEST FOR THE ECONOMIC DEVELOPMENT ADMINISTRATION (EDA). THE ROLE OF EDA AS OUTLINED IN THE ADMINISTRATION'S FY 1995 BUDGET AND RE-AUTHORIZATION REQUESTS REPRESENT A COMMITMENT ON THE PART OF THE ADMINISTRATION AND THE DEPARTMENT OF COMMERCE TO REVITALIZE AND RE-TOOL EDA TO MEET TRADITIONAL ECONOMIC CHALLENGES WHILE FOCUSING ON EXPANDED AUTHORITIES THAT WILL PROVIDE THE AGENCY WITH AN OPPORTUNITY TO FURTHER ASSIST OUR NATION'S DISTRESSED COMMUNITIES.

EDA GOALS INCLUDE:

- ENSURING A SINGULAR, FLEXIBLE AND EFFECTIVE FEDERAL RESPONSE TO ISSUES OF ECONOMIC DEVELOPMENT, JOBS CREATION, AND JOBS RETENTION;
- FORGING AND MAINTAINING STRATEGIC OPERATIONAL ALLIANCES WITH ALL FEDERAL DEPARTMENTS AND AGENCIES ENGAGED IN ECONOMIC

DEVELOPMENT TO ENSURE UNIFORMITY AND CONSISTENCY IN THE EXECUTION OF FEDERAL ECONOMIC DEVELOPMENT POLICY;

- DEVELOPING AND MAINTAINING A UNIFORM FEDERAL PROCESS FOR ECONOMIC DEVELOPMENT PLANNING THAT IS COMPREHENSIVE IN SCOPE, IS FULLY COORDINATED WITH OTHER PRIVATE SECTOR AND GOVERNMENT PROGRAMS, AND EFFECTIVELY LEVERAGES THE USE OF PUBLIC AND PRIVATE RESOURCES IN THE RETENTION OF EXISTING JOBS AND IN THE CREATION OF NEW JOBS FOR THE UNEMPLOYED AND UNDEREMPLOYED, ESPECIALLY IN ECONOMICALLY DISTRESSED AREAS;

- SUPPORTING LOCAL ECONOMIC DEVELOPMENT THROUGH JOINTLY-FUNDED INVESTMENTS FOR PUBLIC WORKS AND DEVELOPMENT FACILITIES SUCH AS HIGH-TECHNOLOGY BUSINESS PARKS AND SKILL TRAINING CENTERS WHICH WILL FACILITATE THE CREATION OR RETENTION OF PRIVATE SECTOR EMPLOYMENT OPPORTUNITIES, INCREASE INCOME LEVELS, AND PROMOTE SHORT-TERM JOB CREATION;

- PROMOTING NATIONAL ECONOMIC STABILITY AND GROWTH, AND THE PRESERVATION OF ESSENTIAL DEFENSE PRODUCTION CAPABILITIES BY FACILITATING THE DEVELOPMENT OF AN INTEGRATED, DEFENSE AND COMMERCIAL INDUSTRIAL BASE;

- GENERATING NEW ECONOMIC OPPORTUNITIES FOR COMMUNITIES THROUGH RESTRUCTURING AND REVITALIZATION OF REGIONAL AND LOCAL ECONOMIES, PRODUCTIVE REUSE OF EXISTING DEFENSE-CREATED ASSETS AND THE MODERNIZATION OF MANUFACTURING CAPACITIES;

- INCREASING THE CAPACITY OF COMMUNITIES TO DEVELOP AND IMPLEMENT STRATEGIES FOR RESTRUCTURING, REBUILDING AND GROWING THEIR ECONOMIC BASE IN RESPONSE TO CHANGES RESULTING FROM GLOBAL COMPETITION, FEDERAL ENVIRONMENTAL AND REGULATORY ACTIONS, LONG-TERM ECONOMIC DETERIORATION, AND RAPIDLY CHANGING TECHNOLOGICAL DEVELOPMENT;

- ELICITING THE MAXIMUM EMPLOYMENT AND ECONOMIC DEVELOPMENT IMPACT FROM EDA PROGRAMS, THROUGH NEW KNOWLEDGE, ANALYSES, DEMONSTRATION PROJECTS AND EVALUATIONS THAT ENSURE REALISTIC ASSESSMENTS OF PROBLEMS AND POTENTIAL SOLUTIONS; AND

- AIDING OTHER DEVELOPMENT ORGANIZATIONS, STATES AND COMMUNITIES IN UNDERSTANDING LOCAL, REGIONAL, AND NATIONAL ECONOMIC DEVELOPMENT PROBLEMS AND ISSUES, DESIGNING ECONOMIC DEVELOPMENT PROGRAMS, AND MAKING POLICY DECISIONS.

EDA PROVIDES GRANTS FOR PUBLIC WORKS AND DEVELOPMENT FACILITIES, PLANNING AND COORDINATION AND OTHER FINANCIAL ASSISTANCE THAT WILL HELP REDUCE SUBSTANTIAL AND PERSISTENT UNEMPLOYMENT IN ECONOMICALLY DISTRESSED AREAS. EDA PROGRAMS HAVE AND WILL CONTINUE TO PROVIDE OUR ECONOMICALLY DISTRESSED AREAS WITH OPPORTUNITIES TO MOVE THESE AREAS OF AMERICA INTO THE 21ST CENTURY THROUGH A FULL RANGE OF GRANTS AND RESEARCH, EVALUATION AND DEMONSTRATION; DEFENSE CONVERSION; AND, DISASTER FUNDS.

THE ADMINISTRATION'S FY 1995 BUDGET REQUEST INCLUDES AN INCREASE IN BUDGET AUTHORITY OF \$50 MILLION FOR ECONOMIC DEVELOPMENT GUARANTEED LOANS. IN ADDITION, THE BUDGET REQUEST INCLUDES TERMINATION OF THE TRADE ADJUSTMENT ASSISTANCE PROGRAM WHICH PROVIDES TECHNICAL ASSISTANCE TO FIRMS INJURED BY IMPORTS. THE DEPARTMENT OF COMMERCE WILL CONTINUE TO PROVIDE ASSISTANCE TO AFFECTED FIRMS THROUGH EXISTING COMMERCE PROGRAMS SUCH AS EDA'S UNIVERSITY CENTERS, THE NATIONAL INSTITUTE OF STANDARDS AND TECHNOLOGY (NIST), MANUFACTURING TECHNOLOGY CENTERS AND THE MINORITY BUSINESS DEVELOPMENT AGENCY'S (MBDA) MINORITY BUSINESS DEVELOPMENT CENTERS.

- PUBLIC WORKS AND DEVELOPMENT FACILITIES GRANTS PROVIDE FOR INFRASTRUCTURE PROJECTS THAT FOSTER THE ESTABLISHMENT OR EXPANSION OF INDUSTRIAL AND COMMERCIAL BUSINESSES PROVIDING THE OPPORTUNITY FOR OR RETENTION OF, LONG-TERM EMPLOYMENT.

- PLANNING GRANTS ENCOURAGE AND SUPPORT LOCAL DEVELOPMENT ORGANIZATIONS AND THE EDA DISTRICT PROGRAM WHICH HAVE THE MISSION OF EMPOWERING STATES AND COMMUNITIES TO DESIGN AND IMPLEMENT EFFECTIVE ECONOMIC DEVELOPMENT POLICIES AND PROGRAMS.

- TECHNICAL ASSISTANCE GRANTS PROVIDE FOR LOCAL FEASIBILITY AND INDUSTRY STUDIES, MANAGEMENT AND OPERATIONAL ASSISTANCE, NATURAL RESOURCE DEVELOPMENT AND EXPORT PROMOTION. AT THE NATIONAL LEVEL, FUNDS WILL PROVIDE FOR STUDIES OF TOPICAL ISSUES SUCH AS TECHNOLOGY TRANSFER AND BUSINESS FINANCING. IN ADDITION, EDA FUNDS A NETWORK OF UNIVERSITY CENTERS THAT PROVIDES TECHNICAL ASSISTANCE.

- ECONOMIC ADJUSTMENT GRANTS PROVIDE A PACKAGE OF ASSISTANCE TOOLS TO HELP COMMUNITIES COUNTERACT EITHER A GRADUAL EROSION OR SUDDEN DISLOCATION OF THEIR LOCAL ECONOMIC STRUCTURE.

- RESEARCH, EVALUATION AND DEMONSTRATION FUNDS ARE USED TO SUPPORT STUDIES OF NATIONAL AND REGIONAL ECONOMIC AND INDUSTRIAL TRENDS THAT WILL INCREASE KNOWLEDGE ABOUT THE CAUSES OF ECONOMIC DISTRESS AND APPROACHES TO ALLEVIATING SUCH PROBLEMS.

- DEFENSE CONVERSION FUNDING WILL ASSIST COMMUNITIES IN THE READJUSTMENT TO DEPARTMENT OF DEFENSE BASE CLOSURES AND PROCUREMENT CUTBACKS BY MAKING AVAILABLE THOSE DEVELOPMENT TOOLS WHICH CAN BE EFFECTIVELY AND EASILY DIRECTED TOWARDS BOTH ON AND OFF-BASE ECONOMIC ADJUSTMENT. SIMILAR ASSISTANCE IS ALSO PROVIDED TO COMMUNITIES ADVERSELY IMPACTED BY DEPARTMENT OF ENERGY (DOE) REALIGNMENTS.

- ECONOMIC DEVELOPMENT GUARANTEED LOANS WILL PROVIDE FUNDS FOR BUSINESS DEVELOPMENT FOR INDUSTRIAL AND COMMERCIAL USES.

FOR EDA TO ACHIEVE ITS GOALS AND EXPANDED MISSION, THE ADMINISTRATION'S BUDGET INCLUDES:

- \$32.647 MILLION IN SALARIES AND EXPENSES. THE AMOUNT REPRESENTS AN INCREASE FROM THE FY 1994 BUDGET, FOR THE PURPOSE OF STREAMLINING GRANTS ADMINISTRATION, INCREASE BUDGET, PROGRAM AND EVALUATION EFFORTS, AND UPGRADE MANAGEMENT INFORMATION SYSTEMS AND THE OFFICE OF ECONOMIC CONVERSION INFORMATION. CONCURRENTLY, EDA WILL REDUCE THE NUMBER OF PERMANENT POSITIONS BY SEVENTEEN FROM FY 1994;

- \$187.024 MILLION IN BROAD-BASED, MULTI-PURPOSE ECONOMIC ASSISTANCE, A DECREASE OF \$55.618 MILLION FROM THE FY 1994 BUDGET TO CONFORM TO THE PRESIDENT'S FY 1994 REQUEST;

- \$140.000 MILLION FOR DEFENSE ECONOMIC INVESTMENT, A \$60 MILLION INCREASE FROM THE FY 1994 BUDGET, TO ASSIST COMMUNITIES TO BEGIN PLANNING FOLLOWING THE ANNOUNCEMENT OF PROCUREMENT CUTBACKS, CLOSING OF DEPARTMENT OF ENERGY DEFENSE-RELATED LABS, OR COMPLETION OF THE BASE CLOSURE COMMISSION'S DECISIONS, AND TO IMPLEMENT BASE REUSE PLANS.

- \$51.976 MILLION FOR THE ECONOMIC DEVELOPMENT GUARANTEED LOAN PROGRAM, AN EXPANDED ROLE FOR EDA WHICH REQUIRES INCREASED BUDGET AUTHORITY. IN FY 1995, EDA WILL LEVERAGE PRIVATE FINANCING AS A SOURCE OF ECONOMIC DEVELOPMENT FUNDING BY TARGETING ITS DEVELOPMENT GUARANTEED LOAN PROGRAM TOWARDS

THOSE FIRMS WHOSE FINANCING NEEDS EXCEED THE SMALL BUSINESS ADMINISTRATION LIMITATION ON DOLLAR VALUE AND WHICH ARE LOCATED IN URBAN AREAS AND, THEREFORE, EXCLUDED FROM THE FARMERS HOME ADMINISTRATION PROGRAM. PARTICULAR EMPHASIS WILL BE PUT ON ASSISTING FIRMS IMPACTED BY DEFENSE ADJUSTMENT, NATURAL DISASTERS, AND GOVERNMENT ACTIONS SUCH AS ENACTMENT OF THE NORTH AMERICAN FREE TRADE AGREEMENT (NAFTA) AND THE GENERAL AGREEMENT ON TARIFFS AND TRADE (GATT). THE AMOUNT WILL COVER A \$269 MILLION PROGRAM. WITH THIS PROGRAM, EDA WILL BROADEN ITS ECONOMIC DEVELOPMENT NETWORK BY WORKING IN PARTNERSHIP WITH THE BUSINESS COMMUNITY WHICH HAS THE CAPACITY TO PRODUCE JOBS IN DISTRESSED COMMUNITIES.

CLOSELY ALIGNED WITH THE EDA FY 1995 BUDGET REQUEST IS REAUTHORIZATION OF EDA. OVER THE LAST TWELVE YEARS, THE AGENCY HAS BEEN THE TARGET OF ELIMINATION. AS A RESULT, THE PUBLIC WORKS AND ECONOMIC DEVELOPMENT ACT (PWEDA) OF 1965 HAS NOT BEEN AMENDED SIGNIFICANTLY SINCE 1981. IN ADDITION, THE GRANT APPLICATION SYSTEM HAS BECOME A CUMBERSOME, TIME-CONSUMING PROCESS FOR OUR CUSTOMERS. THE LEGISLATIVE PACKAGE TRANSMITTED TO CONGRESS ON FEBRUARY 2, 1994 INCLUDES A NUMBER OF TECHNICAL CHANGES AND AN ADMINISTRATION REQUEST TO REAUTHORIZE EDA ONLY THROUGH FY 1995 WHICH WILL PROVIDE THE ADMINISTRATION WITH AN OPPORTUNITY TO WORK WITH THE CONGRESS DURING FY 1995 TO REVITALIZE AND RE-TOOL EDA AS AN ECONOMIC ENGINE FOR THE FUTURE. THE EDA LEGISLATIVE PACKAGE PROPOSES TO:

- PROVIDE FOR A CONSOLIDATED AND COORDINATED SET OF PROGRAM AUTHORITIES UNDER A LIMITED NUMBER OF TITLES THAT WOULD ALLOW FOR SIMPLIFIED AND STRENGTHENED DELIVERY OF EDA PROGRAMS TO THE NATION'S ECONOMICALLY DISTRESSED OR DETERIORATING COMMUNITIES;
- INCREASE THE EMPHASIS ON PROGRAMS WHICH SUPPORT LOCAL AND STATE DEVELOPMENT AND IMPLEMENTATION OF ECONOMIC DEVELOPMENT STRATEGIES;
- RECOGNIZE THAT ECONOMICALLY DISTRESSED AREAS REQUIRE SPECIAL ATTENTION AND PROGRAMS OF SUSTAINED AND TARGETED AID TO ALLOW PRIVATE SECTOR INVESTMENT AND JOBS;
- UNIFY THE FRAMEWORK FOR ECONOMIC DEVELOPMENT AND ADJUSTMENT ASSISTANCE THAT IS BASED ON A GOVERNMENT-WIDE STRATEGIC PLAN;

- RESULT IN A MORE CUSTOMER-ORIENTED FOCUS FOR EDA BY ELIMINATING SOME CUMBERSOME REQUIREMENTS;
- FACILITATE THE AWARD OF GRANTS, PARTICULARLY TO THOSE COMMUNITIES BEING AFFECTED BY DEFENSE CUTBACKS;
- UPDATE THE PWEDA BY ELIMINATING REDUNDANT REQUIREMENTS ALREADY COVERED BY EXECUTIVE ORDERS, AND OTHER LAWS AND REGULATIONS;
- IMPROVE PROGRAM MANAGEMENT BY PROVIDING MORE FLEXIBILITY AND CREATIVITY TO DEAL WITH CHANGES THAT MAY OCCUR IN THE POST-AWARD PERIOD;
- ELIMINATE OUTDATED AND UNNEEDED STRUCTURES, SUCH AS ADVISORY COMMITTEES AND STUDY BOARDS;
- REDUCE TIME FRAMES FOR PROCESSING AND APPROVING GRANTS AND LOANS; AND,
- ENSURE EDA HAS THE AUTHORITY TO INSTITUTE A GUARANTEED LOAN PROGRAM WHICH COMPLIES WITH THE FEDERAL CREDIT REFORM ACT OF 1990.

MR. CHAIRMAN, THE SUGGESTED CHANGES WILL MAKE THE ECONOMIC DEVELOPMENT PROGRAMS OF THE DEPARTMENT OF COMMERCE MORE EFFECTIVE AND WOULD ALLOW THE DEPARTMENT TO RESPOND MORE QUICKLY TO THE ECONOMIC DEVELOPMENT NEEDS OF THE NATION.

IN CLOSING, EDA IS FOSTERING NEW PARTNERSHIPS AND STRATEGIC ALLIANCES AS EVIDENCED IN THE ADMINISTRATION'S FY 1995 BUDGET AND REAUTHORIZATION REQUESTS. EDA HAS DEMONSTRATED ITS EXPERTISE IN ADDRESSING THE ECONOMIC NEEDS OF DISTRESSED COMMUNITIES AS WELL AS THE TOTAL COMMUNITY IMPACT OF A NATURAL OR SOCIAL DISASTER. EDA'S EXPERIENCE AND EXPERTISE IS EXTENSIVE, GROWING AND EXPANDING AND THIS ADMINISTRATION, AS I HAVE SAID BEFORE, IS COMMITTED TO MAKING EDA ONE OF THE MOST RELIABLE FEDERAL GOVERNMENT ENTITIES. WE LOOK FORWARD TO WORKING WITH CONGRESS AS WE APPROACH A NEW HORIZON IN ECONOMIC DEVELOPMENT.

THANK YOU, MR. CHAIRMAN, FOR THE OPPORTUNITY TO APPEAR BEFORE THE SUBCOMMITTEE ON ECONOMIC GROWTH AND CREDIT FORMATION. I WOULD BE GLAD TO RESPOND TO ANY QUESTIONS.

APPALACHIAN REGIONAL COMMISSION

Summary of 1995 Budget

- A. President's Budget includes ARC at \$187 million compared with \$189 million requested for 1994 and \$249 million actually appropriated.
- B. The \$187 million request is consistent with the FY 1995 projection included in the President's 1994 budget plan.
- C. The F.Y. 1995 budget estimates for the out years (1996-99) is now at \$187 million, rather than the decreasing amounts projected in the 1994 budget.
- D. The 1994 President's budget requested \$100 million for Highways, Congress appropriated \$160 million and the 1995 request is back to \$100 million.
- E. The overall \$2 million decrease from the 1994 Budget is taken in the Area Development program, however, the Area Development program budget of \$78.1 million is well above the 1993 appropriation of \$51.7 million.
- F. The small increase in Salaries Expenses for Federal Co-chairman and Commission Staff budget are the first since 1993.
- G. Differences in FY 1994 & 1995 budgets and 1994 appropriations are:

	<u>Program</u>	<u>1994 Budget</u>	<u>1994 Approp.</u>	<u>1995 Budget</u>
1.	Highways	100,000	160,000	100,000
2.	Area Development	80,316	80,316	78,100
3.	LDD & Tech. Asst	5,300	5,300	5,300
4.	Salaries & Expenses	<u>3,384</u>	<u>3,384</u>	<u>3,600</u>
	TOTAL	\$189,000	\$249,000	\$187,000

APPALACHIAN REGIONAL DEVELOPMENT PROGRAM
COMPARATIVE BUDGET DATA
(Thousands of Dollars)

	1994 Budget	1994 Approp.	1995 Budget	Change from 1994 Approp.
1. Highways				
A. Development Highways	\$97,400	\$157,400	\$97,400	(\$60,000)
B. Access Roads	1,000	1,000	1,000	0
C. Administration	1,600	1,600	1,600	0
Sub-total	100,000	160,000	100,000	(60,000)
2. Area Development				
A. Community Development	47,400	47,400	45,189	(2,211)
B. Business & Human Development	32,221	32,221	32,216	(5)
C. Administration	695	695	695	0
Sub-total	80,316	80,316	78,100	(2,216)
3. LDD & Technical Assistant				
A. LDD Support	4,400	4,400	4,400	0
B. Technical Assistance	900	900	900	0
Sub-total	5,300	5,300	5,300	0
4. PROGRAM TOTALS	<u>185,616</u>	<u>245,616</u>	<u>183,400</u>	<u>(62,216)</u>
5. Salaries & Expenses:				
A. Federal Co-Chairman	1,102	1,102	1,200	98
B. Federal 50 percent share	2,282	2,282	2,400	118
Sub-total	3,384	3,384	3,600	216
GRAND TOTAL	<u>\$189,000</u>	<u>\$249,000</u>	<u>\$187,000</u>	<u>(\$62,000)</u>

APPALACHIAN REGIONAL COMMISSION

BUDGET AUTHORITY AND OUTLAYS

(Presidents's FY 1995 Budget)

FISCAL YEAR	BUDGET AUTHORITY	OUTLAYS
1993	\$190,000	\$144,697
1994	249,000	149,104
1995	187,000 *	180,155
1996	187,000 *	215,219
1997	187,000 *	206,620
1998	187,000 *	201,791
1999	187,000 *	199,499
2000		187,000

* Additional authorizing legislation required.

ESTIMATED SPEND-OUT RATES

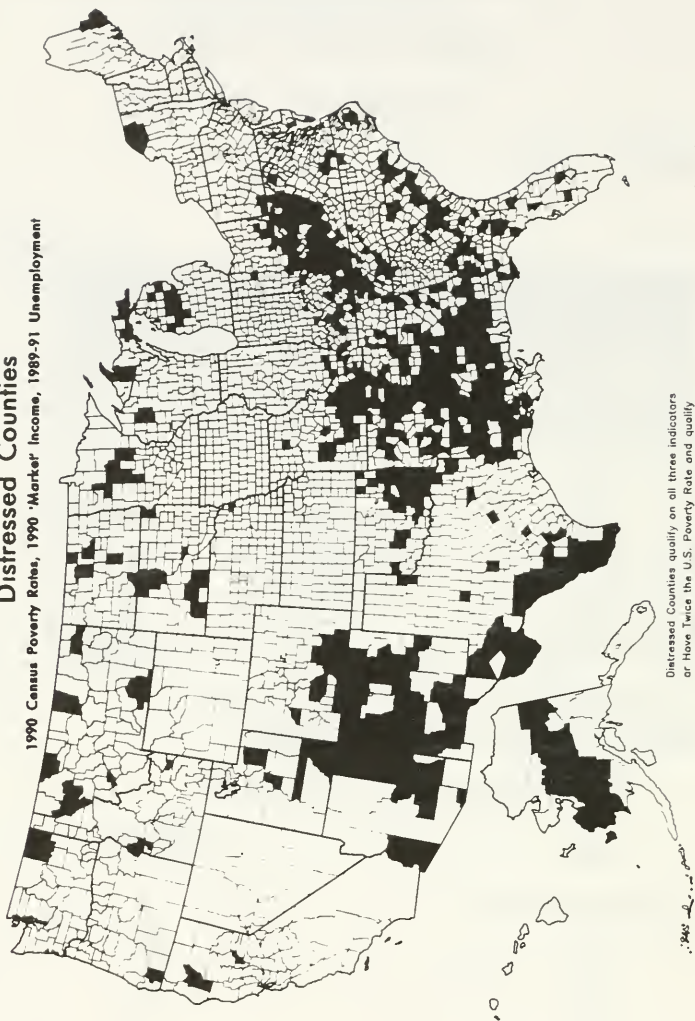
<u>YEAR</u>	<u>PERCENT</u>
Obligation Year	8
1	22
2	30
3	17
4	13
5	10

1/25/94

FRANCIS E. MORAVITZ

Distressed Counties

1990 Census Poverty Rates, 1990 Market Income, 1989-91 Unemployment



Distressed Counties qualify on all three indicators or have twice the U.S. Poverty Rate and qualify on one other indicator. 606 counties are identified.

Appalachian Regional Commission, October 1982

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